

Executive Summary
“Affordable Housing and Growth Management and Sprawl”

Prepared by Charles Buki for the
Millennial Housing Commission
November, 2001

Charles Buki
February 26, 2002

Over the past 50 years or so, Americans have taken advantage of the country's growing prosperity and immense stock of developable land and chosen to live in ever-bigger houses on ever-larger lots. We prefer to live in areas with little density and with neighbors with similar racial and economic backgrounds. This predominant American settlement pattern has become known, somewhat derisively, as sprawl.

While this settlement pattern clearly has much to recommend it (a backyard for every suburban kid), as a nation, we have begun to see tremendous downsides: air pollution, traffic congestion, and environmental degradation among them, as well as aesthetic issues stemming from poor design and the social problems stemming from economically segregated ghettos. In response, the Smart Growth movement has emerged as an attempt to find a different way to accommodate population growth and prosperity. The movement seeks to rein in sprawl and reduce its impact on the environment while creating more livable neighborhoods.

There has been much debate about the impact of Smart Growth measures on affordable housing. Smart Growth advocates suggest that sprawl worsens affordable housing prospects for low-income people (American Planning Association, et.al.), while its critics claim that sprawl improves affordable housing prospects (Heritage Foundation, National Association of Home Builders, et.al.) What the Millennial Housing Commission should know is that there is no conclusive evidence to support either of these contentions. Affordable housing is not a sprawl problem, nor is it a Smart Growth problem.

For better or worse, sprawl is our predominant way of settling, regardless of the supply of housing affordable to low-income households. We settle based on income and consumer preference, on social and economic power, within a framework of a growing population of increasing general prosperity, and in reaction to how much developable land is available. Affordable housing, on the other hand, is at root an income problem; a large number of Americans simply don't make enough money to acquire decent housing near their workplaces.

As a result, many Americans are forced to go further and further from job centers in search not only of housing they can afford, but affordable housing in neighborhoods they are willing to live in. Others are relegated to impoverished ghettos, the character of which drives housing development further away from urban cores as those with means seek to get as far away from the blight as possible. For this reason, housing affordability problems and sprawl are related, though not one and the same.

Housing affordability is also a significant political problem. Low-income housing is considered a burden, and one that well-off neighborhoods work mightily to avoid sharing. Their economic power translates into political power, which is used to fend off undesirable construction through the use of local zoning decisions, land-use regulations, and other public policies. Because they can and their constituents put them in office to do it, local government tends to shift onto neighboring jurisdictions the costs it would otherwise assume in handling its fair share of affordable housing. As a result, low-income housing gets sited some place else or is abandoned entirely, leaving to a still further away jurisdiction to cope with it.

The Millennial Housing Commission must articulate to Congress the imperative of breaking this cycle if the country is serious about addressing its affordable housing problems. Previous commissions, faced with the same challenge and empowered with similar expertise and statutory authority, have not stepped up. This is why the commission may wish to consider the following question: ***How can housing shortages be addressed within current predominantly sprawling settlement patterns?***

Given that the root nature of the affordable housing problem is low incomes, there are two main ways to proceed. The first is to increase the purchasing power of households unable to compete for housing because their incomes are too low. The second is to reduce the expense and hurdles of developing housing.

While costly, increasing the purchasing power of households is straightforward. By comparison, reducing the cost of developing housing *is* complicated, because lowering costs hinges on two factors: lowering building standards and reducing land costs.

Lowering standards allows housing to be constructed more cheaply, but it is politically unpalatable, as existing neighborhoods are unlikely to accommodate these new, low-value neighbors without an incentive. Consequently, new neighborhoods would have to be created comprised of concentrations of new, “cheap” housing. But this would adversely impact the property values of adjacent

communities, who likely won't permit it either. Therefore, reducing the quality of the housing we build for low-income households, unless it is segregated far away from anywhere desirable, isn't a viable option on a large scale.

Reducing land costs can only occur by increasing density beyond what American consumer preference will accept. In a few cases like Portland, density offsets have proved useful. But little evidence suggests Portland is not an anomaly. Politically, tackling consumer preference is a costly endeavor. Previous commissions have struggled with this, and have resorted to soft-pedaling on both. That leaves increasing incomes as the most politically palatable solution to the affordable housing problem.

However, if the Millennial Housing Commission recognizes the income problem as the root of our affordable housing challenge, and recommends major increases in federal funds to address it, the housing problem may go away, but other problems such as neighborhood distress will be caused or worsened because of the problem of cost-shifting. This means that in addition to income supports, the commission must recommend curtailing the enactment of local measures to protect property values in powerful suburban jurisdictions that serve to exclude families of lesser means.

To this end, the Millennial Housing Commission can urge Congress to take two clear-cut directions:

1. Appropriate significant funds to close the gap between what millions of American households can afford and the cost of housing on the open market.
2. Create a significant enough federal incentive for suburban homeowner dominated jurisdictions to adopt land-use plans which are consistent with long-term regional equitable housing distribution goals, plus enact market-oriented incentives to spur real development to achieve such a distribution.

By doing anything else and not these, the problems we have will worsen. Doing the first but not the second will aggravate the problem of concentrated poverty and the creation of ghettos. By doing the second and not the first, there will not be enough purchasing power on the part of millions of households.

Even adopting both of these recommendations will not necessarily solve the ever-dominant problem of sprawl, an issue that will color any attempts to address housing affordability. Regional population growth combined with prosperity and

consumer preference will create sprawl just as they will create an affordable housing problem. But the affordable housing will remain if all else is removed because there would still be an income distribution issue.

Consequently, the purchasing power of low-income households needs to be increased. This can be done by lowering the cost of supply or increasing the reach of demand. For instance, to increase the purchasing power of households unable to afford housing close to jobs, the commission could recommend the expansion of the housing voucher program.

Alone, income supports will not be sufficient. Suburban markets need not only to have a demand for affordable housing, but a ready supply available to meet that demand. This can be done through direct production efforts aimed at creating supply in suburban jurisdictions for low-income households. It might also be done by reducing the regulatory barriers to such production. Both ought to be considered, but emphasis should be placed on reducing the regulatory barriers, so that direct production efforts can result which are not be thwarted by local resistance. This emphasis should be complemented by an effort to underwrite economically integrated housing development, and a mandate to cease providing support for economically segregated development.ⁱ

Federal policy should thus aim to decrease resistance to low-income renter households and renters as neighbors by, for instance, creating an existing property owner's insurance pool significant enough to guarantee competitive house price appreciation in those locales where land-use and zoning authorities were shifted to regional bodies. (Downs)

To reduce local control over production and placement of low-income housing, Congress could create a significant enough federal incentive for states to shift substantial amounts of land-use and zoning authority away from local government, and toward regional bodies that can act in the regional interest. (Katz)

In anticipation of future population growth and prosperity, the commission could recommend that Congress increase the quality of regional planning by encouraging state governments to apply statewide balanced housing goals to local eligibility *for any kind of federal funds for anything*. Other performance measurements could be used, but much more attractive carrots than HUD funding are needed to tip the balance.

The commission is also encouraged to recommend that federal policy recognize the dynamic nature of the market and its tendency to aggregate capital, and in pursuit of capital, investment behavior.

Other recommendations in this paper fall into two groups: 1) fostering production, and 2) encouraging changes in settlement patterns, and are presented within a set of proposed objectives. In sum:

1) **Fostering production [SUPPLY]**

-) Regulatory barriers to production should be reduced by taking action as implied in the 1991 Kemp report. The Kemp report accurately and incisively analyzed the development landscape, but its recommendations were under-whelmingly received by states. (See notes and appendices). The Kemp report appropriately recognized the cost burden placed on developers by the imposition of regulatory barriers. However, it fell short of stating that these regulatory barriers are the legal expression of local homeowner sentiment. By recognizing the impact of regulations on supply but not openly stating that the basis for such regulations is local desire and that local autonomy on such matters was sacred, the Kemp report cleverly threaded a political needle, the effect of which was a vapid report to the President of little practical use.
-) Incentives should be provided for the private sector to innovate (by lowering the developers level of risk of developing middle market housing and otherwise).
-) Congress should increase the amount and create a strategic complexion of federal resources available for subsidy to households at several income levels. Too often the affordable housing problem for low income households is allowed to become a distressed neighborhood problem by virtue of the fact that federal housing resources restrict subsidy to the lowest incomes. Contemporary prosperity and population growth demand redefinition.
-) Housing, environmental, tax and transportation policies should be harmonized at the federal level so, at a minimum, one set of policies does not work directly or indirectly against another. It is ludicrous to spend transportation resources so we can make it easier to develop the kind of large lot subdivisions that exacerbate jobs-housing spatial mismatches, and then spend HUD resources to try to clean up these mismatches.

2) **Encouraging changes in settlement patterns [DEMAND]**

-) Federal policy could help make it easier for the private sector to develop new infill market rate and low-income housing in those parts of regions where overall demand is presently weak: the inner core (downtown and in predominantly low-income neighborhoods), and inner or first-ring suburbs.ⁱⁱ This would be a very deregulatory step and would reduce some of the core's "push".
-) Federal policy could encourage the establishment of land-use and transportation policies at the regional level that promote new housing construction in mixed-use, mixed-income developments in the suburbs.ⁱⁱⁱ A shift *from* cities to regions of some land-use authority is critical.
-) Federal policy could do more to encourage the redevelopment of historic properties, which exist in the older parts of regions where low-income households are often relegated due to the intentional unaffordability of new construction on the fringe. This can be achieved by a blend of regulatory relaxation and changes in tax policy.
-) Federal policy could encourage the conservation of critical environmental resources and should help distinguish between environmental resources and critical environmental resources. (Landis) This would have the effect of both freeing for development non-critical environmental resources and protecting those that are essential. (Cox) This is important, because protecting some resources increases livability and thus housing prices, an impact which can be mitigated somewhat by the fact that freeing up other resources reduces the land component of housing cost. (Richmond)

3) Objectives

-) Development should be encouraged in such a way that communities welcome it as a value-adding activity that grows the quality of life. This means that housing is viewed as a common good activity to be tackled through regional cooperation and region-region partnership. Presently it is viewed only as a burden whose costs are to be shifted, a practice that is feasible for wealthy communities able to harness their homeowner wealth and convert it into political power in the form of exclusionary zoning and land use practices. (Fischel)

-) Innovation needs to be rewarded in the development and finance sectors. Both sectors are given to generating facile, cookie-cutter approaches whose main hallmark is the lack of creativity. The lack of creativity is not the problem; it is the pressure for reproduction that does not facilitate infill activity.
-) Income inadequacies should be addressed in ways that do not undermine consumer preference and indeed increase the options available in the market while strengthening property values. This is the reason for emphasizing the reach of demand rather than decreasing the cost of supply.
-) Economic efficiency is achieved at the regional as well as the neighborhood level.
-) Total “housing-transportation” burden per household decreases

A final word. No doubt there is a great deal of pressure on this commission to solve in one body of recommendations the problem of neighborhood distress. To tackle the poverty in Indian reservations. To deal with sprawl. To get more money to the nonprofits. And so on. The complexity and inter-relational nature of all these and other issues demands creative deviance on the part of the commission.

Every day nonprofit housing groups struggle with making as much happen as possible with an insufficient amount of money. Local governments do the same. A major lesson the housing community has learned but hates to admit in public is that shotgunning insufficient resources usually has little effect. A million dollars in ten neighborhoods has quite a different impact than a million dollars in just two.

It will never be easy to declare that the money will only be spent in two neighborhoods when ten are needy; nevermind *which* two. But no one ever said it was going to be easy. This commission has a historic chance to be creative and to deviate from an easy and attractive path of giving something to everyone.

The work of and assistance provided by Anthony Downs of the Brookings Institution has been most helpful. Similarly the work of William Fishel at Dartmouth, George Galster at Wayne State University, John Landis at the University of California at Berkeley, and Helen Ladd at Duke has been especially useful.